

SB 1247

EDT



Housing Hawaii
Advocating Creating Maintaining Affordable Housing

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Executive Director

Nani Medeiros

February 9, 2009

The Honorable Carol Fukunaga, Chair
Senate Committee on Economic Development and Technology
Hawaii State Capitol, Room 216
Honolulu, HI 96813

Dear Chair Fukunaga and Members:

RE: SB 1247, RELATING TO THE ECONOMY

I am Nani Medeiros, Executive Director of Housing Hawaii, testifying on Senate Bill 1247, Relating to the Economy. This bill repeals numerous tax credits.

Housing Hawaii opposes the repeal of both the income tax credit for low income household renters and the low income housing tax credit.

The Low Income Housing Tax Credit (LIHTC) (IRC section 42) Program is the **principal source of capital for the development of affordable rental housing**. The economic downturn has dramatically reduced investor demand for these federal and state tax credits, particularly in the financial services sector, which has provided the vast majority of the capital for this program in past years.

Due to decreased demand, pricing for the credits has dropped dramatically, such that the tax credits are now selling for about 60% percent of their previous value. Given already constrained local budgets, this will halt some affordable housing projects completely and require localities to put up additional funds for projects that do go forward. In Hawaii there is particular concern surrounding the state's ability to preserve the Kukui Gardens complex because the tax credit portion of the financing package has stalled.

It is very important that the program continue to operate to maintain the supply of affordable housing, especially as demand increases due to foreclosures and economic hardships. The LIHTC program is about providing quality housing to low-income tenants at affordable rents. With unemployment increasing and many homeowners being foreclosed out of their homes, more families than ever are in desperate need of affordable rental housing. Affordable housing production accomplishes this goal. In addition, this program can be an important contributor to job creation and economic stimulus. Thank you for the opportunity to testify.

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Hawaii Pacific Health

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Monday, February 9, 2009 – 1:15pm
Conference Room 016

The Senate Committee on Economic Development and Technology

To: Senator Carol Fukunaga, Chair
Senator Rosalyn Baker, Vice Chair

From: Virginia Pressler, MD, MBA
Executive Vice President

Re: Testimony Opposing SB 1247, Relating to the Economy

Chair Fukunaga, Vice Chair Baker and Members of the Committee:

My name is Virginia Pressler, Executive Vice President for Hawaii Pacific Health (HPH). For more than a century, families in Hawaii and the Pacific Region have relied on the hospitals, clinics, physicians and staff of Hawaii Pacific Health as trusted healthcare providers. Our non-profit integrated healthcare system is the state's largest healthcare provider and is committed to improving the health and well-being of the people of Hawaii and the Pacific Region through its four hospitals -- Kapi'olani Medical Center for Women & Children, Kapiolani Medical Center at Pali Momi, Straub Clinic & Hospital and Wilcox Memorial Hospital -- 18 outpatient centers and a team of 1,100 physicians on the islands of Oahu, Kauai and Lanai.

We oppose SB 1247, which would impose a repeal date on the GET tax exemption for hospitals (Section 237-23, HRS).

A significant amount of hospital payments are from government payors -- Medicare and Medicaid/QUEST -- and those payments continue to be below cost. Hawaii's overall hospital payment percentage (93% of cost) is among the lowest of all states.

On average, Hawaii hospitals lose 20 cents on every \$1.00 spent to provide care for a Med-Quest patient and 21 cents on every Medicare patient. All hospitals in Hawaii are part of the state safety net. Oahu private hospitals such as Kapiolani Medical Center For Women & Children, Straub Clinic & Hospital, Pali Momi, Queen's, Kuakini & others are the safety net for acute care patients not only on Oahu but also serving frequent transfers from the Neighbor Islands. Wilcox Memorial Hospital is the the only full service acute care hospital on Kauai and is a major safety net for Kauai patients, including trauma. Hawaii Pacific Health provides care for thirty six percent (36%) of the total state Medicaid/QUEST discharges and loses tens of millions of dollars each year in order to provide care for these patients because of the inadequate reimbursement rates provided. The non profit hospitals of Hawaii Pacific Health provided \$20 million in uncompensated care to communities throughout Hawaii, including charity care and bad debt.

The State is not and has not been paying its fair share of Medicaid costs. Repeal of the tax exemption will only exacerbate the predicament hospitals face.

Moreover, a repeal date, even if not immediately imposed, will have adverse impacts on our credit rating and ability to obtain financing at reasonable cost.

We urge you to hold this bill.

Thank you for the opportunity to testify.



**SB 1247
RELATING TO THE ECONOMY**

**KEN HIRAKI
VICE PRESIDENT – GOVERNMENT & COMMUNITY AFFAIRS
HAWAIIAN TELCOM**

FEBRUARY 9, 2009

Chair Fukunaga and Members of the Economic Development and Technology Committee:

I am Ken Hiraki, testifying on behalf of Hawaiian Telcom on SB 1247, "Relating to Taxation." Hawaiian Telcom opposes several provisions of this measure.

SB 1247 establishes the repeal of numerous tax credits and exemptions beginning in the 2010 taxable year. While recognizing the value of periodic reviews of Hawaii's tax code as a tool in the development of sensible tax policy, automatic repeal of the scope as proposed in this measure must be approached very cautiously so both lawmakers and the public are fully informed as to the financial and social consequences that this repeal will trigger.

Hawaiian Telcom specifically opposes language repealing Section 239-6.5, Hawaii Revised Statutes (page 5, lines 7-9), which provides a tax credit for lifeline telephone service. Responding to the problem that Hawaii has per capita the fastest graying population in the country and an increasing number of "shut-ins", the Legislature in 1986 established the lifeline telephone program to provide discount telephone rates to those who are either physically disabled or seniors with annual household income below \$10,000.

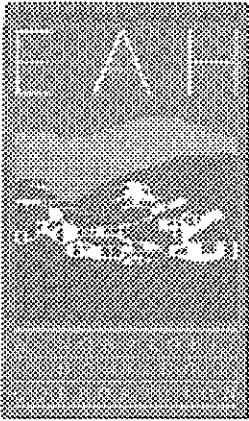
For many of those enrolled in the program, the landline telephone serves as the sole "lifeline" (especially in times of emergency or during an electrical power outage), connecting those that are disabled or seniors with their doctors, 911, or loved ones.

There are currently over 3,000 lifeline beneficiaries enrolled statewide. If this program were eliminated, many will likely be forced to forego telephone service and may be left without any means of communication in case of emergency

In addition, Hawaiian Telcom opposes the repeal of Section 235-110.7, Hawaii Revised Statutes (page 6, lines 7-8), which provides a tax credit for the investment of capital goods and Section 237-23.5 Hawaii Revised Statutes (page 6, lines 16-17), which provides an exemption for services provided by related business entities. Repeal of these sections will remove meaningful financial incentives for our company to invest in new equipment and increase our cost of doing business which eventually will be passed on to local consumers.

Based on the aforementioned, we respectfully request that SB 1247 be held in your committee. If, however, it is the intent of the committee to move this measure, we respectfully ask that the committee delete the specific provisions related to Sections 239-6.5, 235-110.7, and 237-23.5.

Thank you for the opportunity to testify on this measure.



February 4, 2009

Senator Carol Fukunaga, Chair
Senator Roslyn H. Baker, Vice-Chair
Senate Economic Development and Technology Committee
State Capitol, Room 216
Honolulu, Hawaii 96813

Subject: S.B. No. 1247 and Its Impact on Affordable Rental Housing

Dear Chair Fukunaga, Vice-Chair Baker and Members of the Economic Development and Technology Committee:

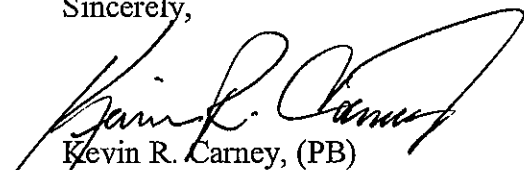
EAH Housing strongly opposes S.B. No. 1247 and any other legislation that would have a negative effect on the Low Income Housing Tax Credit (LIHTC) program and the Income Tax Credit for Low-Income Household Renters. EAH Housing is a non-profit public benefit corporation dedicated to developing, managing, promoting and preserving affordable rental housing. We primarily serve those whose incomes are at or below 60% of the Area Median Income (AMI).

This is not the time to be thinking about sun setting or repealing programs that benefit low-income renters and help produce affordable low-income rental housing. The need for affordable rental units continues to grow. As an example at the end of January 2009, EAH opened the waiting list for one bedroom apartments at Kukui Tower, a 380 unit property in Chinatown that serves those at 80% and below of the AMI. Within 2 days we received over 900 applications! And, we only have available about 24 units per year!

Since its inception in 1986, the LIHTC program has proven to be the most powerful financial tool available to low-income rental housing developers. The combination of both State and Federal credits can provide anywhere from 30% to 40% of the equity needed to produce affordable rental housing. Without this source or a replacement for it, the production of low-income rental housing will come to a stand-still and many more of our residents will be facing homelessness.

Please amend this bill to remove the LIHTC program and the Income Tax Credit for Low-Income Renters. Thank you for this opportunity to submit our thoughts.

Sincerely,



Kevin R. Carney, (PB)
Vice President, Hawaii

SB 1247

RELATING TO THE ECONOMY

**JOEL K. MATSUNAGA
CHIEF OPERATING OFFICER & EXECUTIVE VP
HAWAII BIOENERGY**

FEBRUARY 9, 2009

Chair Fukunaga and Members of the Senate Committee on Economic
Development and Technology:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy on SB 1247,
“Relating to the Economy”.

SUMMARY

SB1247 calls for the department of taxation to evaluate certain tax credits and tax exemptions and calls for the department of taxation to report as well as give recommendations to the legislature prior to the mandate for those tax credits and tax exemptions to sunset. While HBE agrees that the review of these tax credits is important to help ensure the productive and efficient use of taxpayer dollars, the bill would allow the aforementioned provisions to sunset 1) should the department of taxation not submit a review and associated recommendation for the tax credits and tax exemptions or 2) should the department submit their recommendations and those recommendations not be implemented by the legislature. Included in the bill are programs that currently or could significantly benefit the residents of Hawaii. Should those programs not be reviewed and be allowed to expire, and should the department not take into account the role of credits and tax exemptions in attracting future investment, the benefits to Hawaii may never be realized.

Further, Hawaii BioEnergy (“HBE”) would like to take this opportunity to emphasize the importance of two credits contained in SB1247 that are at risk. Specifically, HBE underscores the importance of the Ethanol Facility Tax Credit (Section 235-110.3) and the High Technology Business Investment Tax Credit (Section 235-110.9) to Hawaii’s economy for the following reasons:

1. HBE is currently considering plans to develop locally produced ethanol in Hawaii. While this credit is not currently being utilized, its existence is critical if Hawaii is to attract investment and develop a local ethanol industry. Should the department not submit a report or recommendation to the legislature 20 days prior to the regular 2012 session, and/or the legislature not adopt the recommendations, the Ethanol Facility Tax Credit would not be available for the following tax year. The elimination of the Ethanol Facility Tax Credit would either significantly delay or shut down any attempts by HBE to produce ethanol in Hawaii.
2. HBE is also moving forward with the development of other renewable energy projects in Hawaii that could contribute significantly toward addressing the State’s energy needs and reducing the State’s dependence on imported fuels. The repeal or expiration of the High Technology Business Investment Tax Credit could jeopardize or delay the projects and their associated environmental, economic, and social benefits to Hawaii’s residents.

RENEWABLE ENERGY PROJECTS IN HAWAII

Hawaii BioEnergy is a local company with a mission to help Hawaii toward a sustainable energy future through the production of biofuels from locally grown feedstocks. Among its partners are three of the larger land owners in Hawaii who control in total over 430,000 acres of land. HBE and its partners would like to use significant portions of their land to address Hawaii's energy needs. Since its inception in 2006, HBE has been researching various biofuels alternatives to clearly evaluate each biofuel's relative suitability and sustainability based on Hawaii's natural resource base, climate, market and infrastructure.

One of those biofuel alternatives which HBE is pursuing is the production of jet fuel and other oil derivatives from micro-algae. Preparations have been underway for many months and facilities to conduct on-site research and development are expected to be in place before this legislative session is done. Algae not only offers Hawaii the benefit of developing a locally produced fuel source, but it also benefits the agriculture industry by providing proteins for animal feed, fertilizers and other locally produced products.

HBE is also currently considering plans to develop locally produced ethanol from sugar cane, sweet sorghum, or other crops that can be fermented into ethanol. The production of ethanol in Hawaii will provide its residents with better energy security, create a significant number of jobs, reduce the burning of fossil fuels, and retain dollars in the State's economy rather than sending them overseas.

**REPEAL OF INCENTIVES WILL JEOPARDIZE
RENEWABLE ENERGY PROJECTS**

The elimination of the Ethanol Facility Tax Credit would likely cause HBE to abandon any consideration of developing the local production of ethanol in Hawaii. Or

at a minimum, the elimination would significantly delay any plans to go forward with ethanol production in the State. This is because the production of ethanol in Hawaii would need to compete against ethanol produced and available on the world markets where land, labor and other costs, including adherence to environmental and other regulations, are lower. The current Ethanol Facility Tax Credit helps to offset those cost disparities to the extent that, under the right conditions, HBE would be willing to pursue producing ethanol locally. Further, the credit helps to offset a portion of the risk that first-movers must assume in the establishment of a new industry. Without that credit it would be very difficult, if not impossible, to justify investment in ethanol production facilities in Hawaii.

In addition to ethanol, HBE is also developing other renewable energy sources which will help contribute to a more secure and sustainable energy future for Hawaii. The Company has expended a considerable amount of its investors' funds to date to conduct the research and development to be able to move projects forward that will benefit Hawaii. The availability of the High Technology Business Investment Tax Credit has allowed HBE to maximize our investors' funds with the State's incentives. Without the credit, it is possible that HBE's projects, as well as the benefits they will provide to Hawaii's residents, will be delayed. Based on an independent analysis commissioned by HBE, a large-scale ethanol facility could provide up to 1,400 new jobs and over \$115 million in added value in the State. This type of economic stimulus is needed now more than ever given the economic downturn and the state budget deficit, but could be in jeopardy should the High Technology Business Investment Tax Credit be repealed or otherwise eliminated.

CONCLUSION

HBE is moving forward with projects that will help to secure Hawaii's energy future and generate economic benefits for the state. Hawaii residents will benefit from:

- Greater energy security from the displacement of fuel imports;
- A cleaner environment from the expansion of sustainable agriculture, the sequestration of CO₂ and harmful green house gas emissions, and reduction of fossil fuel consumption;
- A stronger economy through local fuel production, job creation, wealth, and tax generation.

However, the potential elimination of the Ethanol Facility Tax Credit and the High Technology Business Investment Tax Credit will jeopardize those benefits by either significantly delaying or terminating projects under consideration.

Based on the aforementioned, Hawaii BioEnergy respectfully requests your support in opposing the provision that allows for automatic termination of the Ethanol Facility Tax Credit and the High Technology Business Investment Tax Credit absent review and recommendations from the department of taxation and/or consensus by the legislature.

Thank you for the opportunity to testify.

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Subject: tax credit
Folder: 09-130
Date: 02/25/2009

February 25, 2009

TITLE: S.B. 1247, S.D. 1, RELATING TO THE ECONOMY

PROPOSAL: S.D. 1 changes the potential repeal date for some of the income tax credits and GET exemptions and limits repeals of the capital goods excise tax credit, the low income housing tax credit and the GET exemption for certified housing projects to "projects approved after January 1, 2014." Removes potential repeal of the income tax credit for technology infrastructure.

The original bill contained potential repeal of certain net income tax credits and GET exemptions. It also expands the current responsibilities for the Department of Taxation to evaluate the credits scheduled for repeal. The bill takes effect on July 1, 2009.

REVENUE IMPACT:

General Fund: The estimated revenue gain from the potential credit and exemption eliminations is \$391.1 million for FY2011, \$908.1 million for FY2012, \$1,053.7 million for FY2013, \$1,308.5 million for FY2014, and \$1,567.0 million for FY2015.

In addition, the study required by the bill may result in an additional revenue gain of from \$1 million to \$3 million, because data and analysis developed for the study will help make the Department's compliance efforts more efficient.

METHODOLOGY: Revenue gains from eliminating the income tax credits are taken from the Department's study of income tax credits for 2006. Revenue gains from eliminating the GET exemptions are from the report of the 2005-2007 Tax Review Commission.

DISCUSSION: The bill says "the tax credits in paragraphs (6) and (9) ... and the tax exemption in paragraph (7) [of subsection (d)] shall not apply to those projects approved before January 1, 2014", but (6) and (7) are tax credits and (9) is an exemption. Also, (6) is the capital goods excise tax credit, which does not require approval. The estimates are subject to substantial error. For example, the estimates for the tax credits are primarily tax expenditures rather than revenue estimates. The estimates for the GET exemptions are subject to even wider margins of error. All estimates are based on an average nominal growth rate of 3% per year for the entire period.

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Subject: Tax credits

Folder: 09-130

Date: 02/25/2009

	FY 2006 Revenue gain	Annual revenue gain FY2011	Annual revenue gain FY2012	Annual revenue gain FY2013	Annual revenue gain FY2014	Annual revenue gain FY2015
Total, All Provisions	\$1,210,355,719	\$391,091,889	\$908,076,134	\$1,053,704,251	\$1,308,502,320	\$1,566,970,946
Provisions set to expire December 31, 2010	\$674,296,361	\$391,091,889	\$805,649,292	\$829,818,771	\$854,713,334	\$880,354,734
(1) Section 235-15 (Tax credits for child passenger restraints)	\$138,650	\$30,417	\$165,659	\$170,629	\$175,748	\$181,020
(2) Section 235-110.2 (Credit for school repairs)	\$5,661	\$3,283	\$6,764	\$6,967	\$7,176	\$7,391
(3) Section 237-24 ((GET exemption, amounts not taxable, except wages)	\$275,731,000	\$159,923,980	\$329,443,399	\$339,326,701	\$349,506,502	\$359,991,697
(4) Section 237-24.3 (GET exemption for empl. Benefits & other items)	\$379,658,000	\$220,201,640	\$453,615,378	\$467,223,840	\$481,240,555	\$495,677,772
(5) Section 237-24.9 (GET exemption for aircraft facilities)	\$7,210,000	\$4,181,800	\$8,614,508	\$8,872,943	\$9,139,132	\$9,413,305
(6) Section 237-29.53 (GET exemption for exported Contr. & Services)	\$4,233,000	\$2,455,140	\$5,057,588	\$5,209,316	\$5,365,596	\$5,526,563
(7) Section 237-29.55 (GET exemption for wholesale of TPP)	\$7,320,050	\$4,245,629	\$8,745,996	\$9,008,376	\$9,278,627	\$9,556,986
(8) Section 237-29.8 (GET exemption for call centers)	\$0	\$0	\$0	\$0	\$0	\$0
(9) Section 239-12 (PSC tax on call centers)	\$0	\$0	\$0	\$0	\$0	\$0
Provisions set to expire December 31, 2011	\$171,454,372	\$0	\$102,426,842	\$210,999,294	\$217,329,273	\$223,849,151
(1) Section 235-110.6 (Fuel tax credit for commercial fishers)	\$63,158	\$0	\$37,791	\$77,725	\$80,057	\$82,458
(2) Section 237-16.8 (GET exemption for Conv. & trade show fees)	\$2,441,795	\$0	\$1,458,728	\$3,004,980	\$3,095,130	\$3,187,984
(3) Section 237-23.5 (GET exemption, related entities)	\$11,433,000	\$0	\$6,830,074	\$14,069,953	\$14,492,051	\$14,926,813
(4) Section 237-24.5 (GET exemption for an exchange or board of trade)	\$0	\$0	\$0	\$0	\$0	\$0
(5) Section 237-24.7 (GET exemption, additional amounts)	\$0	\$0	\$0	\$0	\$0	\$0
(6) Section 237-24.75 (GET exemption for beverage container fees)	\$47,998,000	\$0	\$28,674,005	\$59,068,451	\$60,840,504	\$62,665,719
(7) Section 237-25 (GET exemption for sales to the federal government)	\$1,373,333	\$0	\$820,429	\$1,690,084	\$1,740,787	\$1,793,010
(8) Section 237-28.1 (GET exemption for shipbuilding & repair)	\$40,994,000	\$0	\$24,489,816	\$50,449,020	\$51,962,491	\$53,521,365
(9) Section 237-29.5 (GET exemption for exports of TPP)	\$822,086	\$0	\$550,854	\$1,134,760	\$1,168,802	\$1,203,866
(10) Section 237-29.5 (GET exemption for exports of TPP)	\$66,229,000	\$0	\$39,565,205	\$81,504,321	\$83,949,451	\$86,467,935
Provisions set to expire December 31, 2012	\$20,942,184	\$0	\$0	\$12,886,186	\$26,545,544	\$27,341,910
(1) Section 209E-10 (Enterprise zone tax credit)	\$1,648,000	\$0	\$0	\$1,014,051	\$2,088,944	\$2,151,613
(2) Section 209E-11 (GET exemption for enterprise zones)	\$33,259	\$0	\$0	\$20,465	\$42,158	\$43,422
(3) Section 235-55.85 (Low income refundable tax credit)	\$7,374,600	\$0	\$0	\$4,537,754	\$9,347,772	\$9,628,206
(4) Section 235-55.91 (Credit for employment or vocational rehabilitation)	\$21,237	\$0	\$0	\$13,068	\$26,919	\$27,727
(5) Section 235-71 (Credit of shareholders of RIC's)	\$242,363	\$0	\$0	\$149,132	\$307,211	\$316,427
(6) Section 237-27 (GET exemption for scientific contracts)	\$2,198,437	\$0	\$0	\$1,352,747	\$2,786,658	\$2,870,258
(7) Section 237-27.5 (GET exemption for petroleum refunders)	\$1,896,879	\$0	\$0	\$1,167,191	\$2,404,414	\$2,476,547
(8) Section 237-27.6 (GET exemption for air pollution control facilities)	\$3,991,687	\$0	\$0	\$2,456,173	\$5,059,716	\$5,211,508
(9) Section 237-27.6 (GET exemption for solid waste, Elect. Gen. Fac.)	\$206,000	\$0	\$0	\$126,756	\$261,118	\$268,962
(10) Section 244D-4.3 (liquor tax, exemption for exported liquor) 1/	\$3,329,722	\$0	\$0	\$2,048,851	\$4,220,633	\$4,347,252
Provisions set to expire December 31, 2013	\$343,662,802	\$0	\$0	\$209,914,169	\$209,914,169	\$435,425,151
(1) Section 235-12.5 (Renewable energy technologies)	\$6,181,990	\$0	\$0	\$3,918,032	\$3,918,032	\$8,071,746
(2) Section 235-55 (Tax credits for resident taxpayers)	\$35,638,000	\$0	\$0	\$0	\$22,586,711	\$46,528,624
(3) Section 235-55.6 (Dependent care tax credit)	\$8,863,794	\$0	\$0	\$0	\$5,617,710	\$11,572,483
(4) Section 235-55.7 (Low income renter's credit)	\$5,293,650	\$0	\$0	\$0	\$3,355,018	\$6,911,338
(5) Section 235-110.3 (Ethanol facilities tax credit)	\$0	\$0	\$0	\$0	\$0	\$0
(6) Section 235-110.7 (Capital goods excise tax credit)	\$4,334,925	\$0	\$0	\$0	\$21,760,846	\$44,827,342
(7) Section 235-110.8 (Low income housing tax credit) 2/	\$6,513,150	\$0	\$0	\$0	\$412,792	\$1,700,701
(8) Section 237-23 (GET exemption, persons exempt, exc. PSC's)	\$231,956,000	\$0	\$0	\$0	\$147,009,459	\$302,839,485
(9) Section 237-29 (GET exemption for certified housing projects) 3/	\$8,240,000	\$0	\$0	\$0	\$1,044,472	\$4,303,225
(10) Section 239-6.5 (Lifeline phone credit)	\$128,143	\$0	\$0	\$0	\$81,215	\$167,302
(11) Section 241-4.7 (Low income housing credit)	\$6,513,150	\$0	\$0	\$0	\$4,127,915	\$8,503,505

Assumes constant growth of 3% per year. Does not include the tax credits for Ko Olina, ethanol facilities, RIC shareholders, important agricultural lands, or taxes paid to other jurisdictions.

1/ Assumes taxes on exempt exported liquor are 7% as great as the total collected liquor taxes.

2/ Assumes the low income housing tax credit on new projects is 10% of the total for each year.

3/ Assumes 20% of the total amount exempted under the provision is for new housing projects each year.